Congressional
Progressive Caucus
Rep. Dennis Kucinich, Chairman

NEWS UPDATE - Monday, January 29, 2001

SUMMARY

In the News…

- *New York Times* reports on how the Bush Administration's plan to erase the estate tax will be an even bigger boon to the wealthiest 2 percent of the population than originally expected
- *American Health Line* reports on a new study by Harvard University showing parents pay 58% of child health care costs out of pocket for uninsured children
- *Cox News Service* reports on Senate efforts to use a bipartisan coalition sugarcoat Bush education and tax proposals
- *New York Times* reports on a new study linking low-level uranium ammunition used by American forces in the Persian Gulf War to Gulf War Illness
- *Roll Call* reports on how Democrats are abandoning efforts to target tax cuts despite polls that show strong support for them to stand up to GOP tax proposals in which the majority of the benefits go to the wealthy
- *New York Times* reports on how Montana is an example of a state pushing ahead with plans to gut environmental laws at the request of corporate interests, confident that the new Administration will be more open to loosening federal environmental protections than the previous one

From the Editorial Pages…

- *Washington Post* editorial board writes about how the endless fundraising cycle is just more proof that the campaign finance system is totally out of control
- *Gregory Palast*, author of a new U.N. book on energy regulation, writes that while "regulation" may be an unfashionable term, it historically has provided the U.S. with the cheapest and most reliable energy in the world and will help California emerge from its crisis

Quote of the Day…

"This will shift the tax burden from the wealthy to everyone else."

- Jonathan G. Blattmachr, "card-carrying Republican" and New York estate tax lawyer, on the effects of the GOP estate tax proposal

In the News on Monday, January 29, 2001

Some Experts Questioning Bush Plan on Estate Taxes

By DAVID CAY JOHNSTON

President Bush has made repealing gift and estate taxes a centerpiece of his tax cut plan. Proponents and opponents of the repeal agree that, as proposed, it would save the wealthiest 2 percent of Americans about $236 billion over the next decade.

But unless Congress writes conditions into the legislation, estate tax lawyers and other experts say, the real savings to those taxpayers — and the consequent drain on government treasuries — could be vastly greater. They cited several ways in which wealthier taxpayers could maneuver to reduce or eliminate other taxes.

Not just the federal Treasury, but also the District of Columbia and the 43 states with their own income taxes, would lose far more revenue than they might anticipate, these experts said. They also said charities could feel the effects, since one important incentive for creating private foundations would be eliminated.

Jonathan G. Blattmachr, an estate tax lawyer at Milbank, Tweed, Hadley & McCloy in New York, who counsels some of the nation's wealthiest families on how to minimize their taxes, said he was troubled by the lack of debate about the broader effect of repeal on government finances and charities.

Mr. Blattmachr, who called himself a "card-carrying Republican," said arranging new ways for the wealthy to capitalize on the changes would become a major business for lawyers like him, who now concentrate on estate tax planning. "This will shift the tax burden from the wealthy to everyone else," he said.

Gift and estate taxes are not assessed on the first $675,000 of net worth an individual has at death. Amounts above this threshold are taxed at rates that begin at 37 percent and rise to 55 percent on amounts greater than $3 million. Nearly 48,000 Americans, or 2 percent of all the Americans who die each year — who range from small business owners and professionals to multibillionaire executives — pay estate taxes. Nearly half the estate tax is paid by just 4,000 people who die each year leaving more than $5 million dollars or more.

Legislation that passed Congress last year and was vetoed by President Bill Clinton also would have repealed the estate tax, but it would have limited the income-tax avoidance strategies that are possible under the Bush proposal. The Bush plan, which would phase out gift and estate taxes by 2009, was introduced in the Senate last Monday by Phil Gramm, Republican of Texas, and Zell Miller, Democrat of Georgia. How Congress will proceed is unclear, since neither of the committees with jurisdiction over taxes — the House Ways and Means Committee and the Senate Finance Committee — has begun to draft a bill.

Some in Washington are aware of the loopholes opened by the Bush plan, and are debating whether and how to close them. So it is possible that any legislation that emerges this year could vary significantly from what Mr. Bush has proposed.

If it goes through unchanged, tax experts and others offer several examples of how the Bush proposal could be manipulated.

Consider, for one, the case of an individual with stock that has grown in value by $100 million.

Currently, if the stockholder sold, she would owe $20 million in capital gains taxes. If she gave the stock to a relative, she would have to pay $55 million in gift taxes, and if the relative sold the stock, he would owe $9 million in capital gains taxes.

But if the gift and estate taxes were repealed without conditions, a family maneuver could permit the stock to be sold and the full $100 million in profit realized without payment of any capital gains tax. Here is how: The owner would give the stock to an older relative — say, an uncle — who is expected to live at least a year. The uncle would leave the stock to his niece, the original owner, in his will. When the uncle died, the stock would be returned to the niece at its new value, tax free.

President Bush's press secretary, Ari Fleischer, said the Bush bill would be "reviewed so that interaction among provisions will not lend itself to creation of new loopholes." But he said that the possibility that a few wealthy Americans might exploit new loopholes should not prevent "the many being relieved of the unfair burden of a tax that should not exist."

He said President Bush was adamant that the gift and estate taxes should be repealed for everyone and that the president would not support raising the current exemption so that the tax would continue to be applied to the wealthiest.

Douglas Freeman, of Freeman, Freeman & Smiley, an estate tax law firm in California, said, "The analysis done by the tax-writing committee staff of the cost of repeal has been very poor and shows they have not given much thought, if any, to how repeal will affect the income tax" or to "creative ways that will be found" to cut the income tax bills of the wealthy.

One such way would be to give stock to one of the million or so Americans who report negative incomes on their tax returns and thus do not pay federal income taxes, even though they may be quite wealthy. Many of these people who live tax free are real estate developers and landlords, whom Congress allows to use deductions, like that for depreciation of their buildings, to offset their incomes.

The individual with the $100 million-dollar gain could arrange to give her stock to such a person, who would sell it tax free, then return the proceeds, presumably keeping a part of the proceeds for his trouble.

Alan Halperin, an estate tax specialist at Stroock & Stroock & Lavan in New York, said such transfers would be inhibited only by the degree to which one trusted the recipient of the gift to honor the deal. Mr. Halperin emphasized that, in describing new tax avoidance techniques, he was talking only about the technical issues and not taking a position on taxing gifts and estates.

Even if one has neither an aged relative nor a wealthy friend in real estate, the capital gains tax can be reduced by as much as 63 percent.

To accomplish this, the stock would be given to several lower-income relatives, who are among the 70 percent of Americans whose capital gains tax rate is 10 percent (which Mr. Bush wants to reduce to 8 percent).
Assuming the individual owed taxes at the nominal top rate of 20 percent on capital gains, using this technique, he would cut the tax bill on each million dollars of gain to $100,000 from $200,000.

The tax savings using this technique would be even larger for taxpayers who make roughly $150,000 to $330,000 a year because tax rules and the alternative minimum tax force such individuals to pay up to 27 percent of their capital gains in taxes. By working with relatives in the 10 percent capital gains tax bracket, these people could save 63 percent.

Residents of New York and many other states could also stop paying state taxes on their investment income. Here's how:

The investments would be given to a relative, say a brother, in a trust. Under current law, such a gift would face a 55 percent gift tax, but with repeal, no tax would be owed.
The trust would be organized in Florida, Texas or one of five other states with no state income tax. Each year, the trust would pay federal income taxes on its capital gains, dividends and interest, but not state income taxes.
When the individual wanted to spend the money in the trust, he would have his brother approve the return of the money. If this was done early in the year, none of the money would be taxed by New York or many other states. That is because investment income from previous years would be treated as untaxable capital, not income.
Mr. Blattmachr used himself as an example, saying he could put his investment assets into a trust in Alaska, where his brother Douglas lives. Alaska does not have a state income tax.

"For the states, the losses from this kind of activity would be gargantuan," he said. "I don't understand why the governors are not calling President Bush to tell him that this would be a disaster for the states."

Mr. Halperin concurred. "In terms of who loses," he said, "I would say the states first and foremost, then charity and then spouses. The states will really get hammered."

Charities would be hurt because repeal of the estate tax would remove an important rationale for private foundations, which are created because the gifts to them reduce estate taxes.

With the estate tax gone, these experts say, the wealthy would be encouraged instead to create trusts on which little or no tax would be owed. Unlike private foundations, these trusts could, for example, own the entire family business. The trusts would be obligated to make much smaller gifts to charity than private foundations, which must pay out 5 percent of their assets each year. And if such trusts were created in any of the 10 states that allow trusts to exist in perpetuity, a family could avoid large amounts of taxes on its wealth indefinitely.

Mr. Blattmachr and Mitchell Gans, a professor of tax law at Hofstra University, wrote an article for the journal Tax Notes in which they outlined some ways to avoid the income tax that would be created by repeal of the gift and estate tax laws.

Mr. Blattmachr predicted a 90 percent drop in charitable giving at death. Mr. Halperin, however, said many bequests were motivated not by taxes but by issues of status and of concern for a charity, and so any decline might be much less.

Repeal of the gift and estate tax laws would also effectively undo state laws that protect against a wealthy person's leaving nothing to a spouse at death, these experts say.

Most states have laws entitling a spouse to at least one-third of an estate, but with repeal of the gift tax laws, these experts say, an angry spouse could give everything tax free to the children, or even a mistress, before dying.

"If Congress repeals the gift tax, then it doesn't matter if you give an asset away while you are alive or after you die," Mr. Halperin said. He said an individual who wanted to make life miserable for a spouse could arrange to give away assets before death to children, friends or even a lover and leave the surviving spouse with little or nothing. "Congress," he said, "needs to consider this."

UNINSURED: 58% of Child Health Costs Paid Out-of-Pocket

National Journal American Health Line

American families paid about 58% of health care costs out of pocket for uninsured children, while they paid only 23% out of pocket for children covered by private health insurance, a new study conducted by the Agency for

Healthcare Research and Quality and Harvard University found. According to the "Annual Report on Access to and Utilization of Health Care for Children and Youth in the United States--2000," average expenditures for all health care services for uninsured children totaled $369, compared to $1,100 for children with private insurance. The study, using information from AHRQ’s Medical Expenditure Panel Survey and the Healthcare Cost and Utilization Project, provides national, regional and state findings on children’s hospitalizations. The report "provides a clear picture of the state of children’s health care in the United States and identifies gaps in the health care of America’s young," AHRQ Deputy Director and study co-author Lisa Simpson said. Although the findings showed "no change" in the number of uninsured children between the first six months of 1997 and the same period in 1998, the report "does not reflect the potential impact" of CHIP.

Moderates like Georgia’s Miller flexing their muscles in Senate

Cox News

By Scott Shepard - Cox Washington Bureau

Washington --- The evenly divided U.S. Senate has brought into power a group of senators whose moderation and consensus-driven lawmaking efforts have often been shoved aside by the partisan rages on Capitol Hill in the last decade.

These ”centrist” Southern Democrats and Northeastern Republicans, sometimes called the ”Breaux-Snowe Axis” in a salute to their leaders, already are exerting influence on the signature issues of the new Bush presidency: education reform and tax cutting.

Plenty in President Bush’s still-evolving legislative agenda can arouse strong political passions in both parties in the months to come.

Then, too, Bush’s unusual victory over Al Gore in a presidential election that turned on legal challenges in Florida has roused the Democratic Party in much the same way as the Clinton impeachment battle.

Thus, the warmth of goodwill and cooperation that has enveloped the snowy capital since Bush’s inauguration can still erupt into fiery rhetoric and renewed political hostilities.

”Lurking beneath the surfaces are deep partisan resentments fed by events in Florida,” said Marshall Wittmann, a senior fellow at the Hudson Institute, a public policy think tank in Indianapolis.

In fact, the first major test of this new era of ”principled compromise,” as Senate Democratic Leader Tom Daschle recently described it, could come later this week when the Senate is scheduled to vote on Bush’s controversial nomination of conservative John Ashcroft to head the Justice Department.

Still, the historic 50-50 division of Republicans and Democrats in the Senate, coupled with an almost evenly divided House of Representatives and one of the closest presidential elections in history, has given moderate senators a measure of influence they rarely have enjoyed.

”There’s no question that if we’re going to get some things done, it’s going to be with the center leading the way,” said Sen. Evan Bayh (D-Ind.), a leader in the ”centrist” movement. ”And I think the prospects of that are better than ever before.”

Indeed, "There's almost no chance of any so-called Republican bill or Democratic bill or Bush bill getting out of this Senate," said Charles Cook, a well-known political newsletter publisher in Washington and an analyst for National Journal magazine. "It's going to have to be a bipartisan bill."

That was demonstrated dramatically last week when Sen. Zell Miller (D-Ga.), a Democratic centrist joined Sen. Phil Gramm (R-Texas) in sponsoring a tax cut measure modeled after the one Bush proposed during the presidential campaign.

"In starting off, it's hard to get bipartisanship," beamed Gramm, a no-holds-barred Republican partisan.
And that is what makes the Breaux-Snowe Axis of moderates so important in the Senate, not only to Daschle and Republican leader Trent Lott, but also to the White House.

Bush acknowledged as much when, in the days immediately after his victory over Gore, he met with Sen. John Breaux of Louisiana, the co-founder of the Senate Centrist Coalition, who shares many of the president's views on domestic issues.

Breaux and Sen. Olympia Snowe (R-Maine), the coalition's co-chairwoman, spent much of the last congressional session trying to break Capitol Hill stalemates on Medicare, Social Security, education and health care for the uninsured. They failed.

But they regard the campaign results from last year as a clear mandate for the centrists to lead, certainly more of a mandate than in 1993 when Breaux and the late Sen. John Chafee (R-R.I.) organized the coalition to influence the debate on the Clinton health care plan that year. (Chafee's son and successor, Sen. Lincoln Chafee (R-R.I.), is now a coalition member.)

The 2000 election was "a mandate to govern from the middle," Breaux told reporters last week. "Congressional bipartisanship is no longer a political theory; it is a political necessity," he said. Lott and Daschle realize that "unless there is some bipartisan recommendations, nothing will get done in this Congress," he added.

Ironically, the House, a seething caldron of partisanship, has more experience with the kind of coalition-building that is taking place in the Senate. Republicans and Democrats near the political center have been forging partnerships in the House as far back as Ronald Reagan's first term in the White House.

But the Senate is an institution that, more often than not, rewards intransigence and discourages deal-making, especially in the era of the permanent campaign when politicians of both parties cater to their bases, usually at the ends of the spectrum, instead of the center.

An example of trying to govern from the center is the education reform package introduced by the Senate's New Democrat Coalition last week, a measure that gives Bush most of what he is expected to seek in the administration's legislation.

"When the Senate New Democrats were organized last year, this is exactly what we had in mind: to work together with people of like mind who wanted to find the point of consensus that would allow words to be converted into action," Sen. Bob Graham of Florida, the coalition's founder, told reporters.

Snowe has suggested the Senate Centrist Coalition might come up with a compromise on a key part of Bush's education package that is strongly opposed by most Democrats: school vouchers to children attending failing public schools. "We may be a catalyst for that middle ground on that issue," Snowe said.

Most of the Senate New Democrat Coalition's 21 members also belong to the 43-member Senate Centrist Coalition. Not all are political moderates, strictly speaking.

For example, the New Democrats include Sens. John Kerry of Massachusetts and Hillary Rodham Clinton of New York, two liberals widely mentioned as possible presidential candidates.

And the Centrist Coalition includes Sens. John McCain of Arizona, a staunch conservative on nearly every issue except campaign finance reform, and George Allen of Virginia, a former governor and fierce partisan in the politics of his home state.

Of the two groups, most of the raw political power lies with the Senate Centrist Coalition, which includes five GOP committee chairmen: McCain, Commerce; Jim Jeffords, Education; Fred Thompson, Governmental Affairs; John Warner, Armed Services; and Pete Domenici, Budget.

The moderate coalitions have drawn the ire of some conservatives. Sen. Craig Thomas (R-Wyo.) dismissed the notion that they will call the political shots in the evenly divided Senate as ”a myth.”

But last week, when the Senate Centrist Coalition held its first organizational meeting of the 107th Congress, the gathering drew two important guests who came to pay their respects: Lott and Dashcle.

Daschle, acknowledging the new political reality in the Senate, joked about how popular it has become to be considered a centrist in this age of political parity.

”There was a meeting called of the fringe element, and no one showed up,” he quipped.
At least not in the first weeks of the 107th Congress.

Doctor’s Gulf War Studies Link Cancer to Depleted Uranium

New York Times

By MARLISE SIMONS

PARIS, Jan. 28 — The cancer deaths of 24 European soldiers who served as peacekeepers in the Balkans and the illnesses reported by many others have stirred alarm in Europe about the use of depleted uranium in munitions fired from American warplanes during the conflicts in Bosnia and Kosovo.

No one has provably linked the use of depleted uranium to the deaths or illnesses of Balkan veterans, and many scientists consider such a link impossible. Nor is it clear that cancers are occurring at a higher rate among former peacekeepers than in the population at large.

But the fears often stirred by mention of radiation have sent doctors, military experts and politicians scurrying for explanations. Among the research they are re-examining is the work of a retired United States Army colonel who has insisted that some of the illnesses he has observed in Persian Gulf war veterans may be linked to the depleted uranium and uranium 236 isotope he says he found in their bodies.

Asaf Durakovic began examining gulf war veterans when he worked as chief of nuclear medicine at the Veterans Administration Hospital in Wilmington, Del., in the 1990's. Since that post was abolished in 1997, he has continued with his privately funded research in Toronto.

In a recent interview, he said his analysis over the last three years of body fluids of more than 40 American, British and Canadian gulf war veterans who have turned to him keeps turning up evidence of depleted uranium and uranium 236, a more radioactive uranium isotope.

Dr. Durakovic said that, unlike many other institutions involved in testing for uranium, he uses mass spectometry tests that measure the relative abundance of each isotope in the body.

He said he found depleted uranium, including uranium 236, in 62 percent of the sick gulf war veterans he examined. He believes that particles lodged in their bodies and may be a cause of their illnesses.

Radiation experts in France and Britain say they are now rereading his work because he was the first to report that he found uranium 236 in the urine as well as in the bone tissue of gulf war veterans. They suspect that its presence indicates that other contaminants may be present.

"This cannot be conventional depleted uranium," said Monique Sené, a physicist who is prominent in France's large atomic research establishment, when asked about Dr. Durakovic's findings. "The ratios he found do not exist in nature. This contains nuclear waste."

Dr. Durakovic's work has been circulating among NATO medical staff members. Several universities have asked him to collaborate, and he has been invited to brief the government in Italy, which raised the alarm about sick peacekeepers and where 10 soldiers have recently died.

Dr. Durakovic, 60, has worked in radiation biology for over 30 years in Britain, Canada and the United States. His work won plaudits from the Defense Nuclear Agency, the United States Army research center. Last year, he presented his studies at the conference of the European Association of Nuclear Medicine in Paris. His work is now also described in a newly published book, "Depleted Uranium, Invisible War," which has received broad news media attention in France.

Dr. Durakovic said that when he started tests on 24 American gulf war veterans he was asked to examine in 1991 by a colleague at a New Jersey hospital, urine samples were lost and his efforts to get more precise tests were discouraged. Eventually, he said, he was dismissed.

At the veterans hospital in Wilmington, a spokeswoman, Barbara Howell, said Dr. Durakovic's employment ended because "we did not need a full-time nuclear medicine physician." She said that no samples had been lost, and that in all samples tested the levels of uranium "were within normal limits." Dr. Durakovic said he never got test reports. NATO officials fear that the concern in Europe could lead eventually to a ban on munitions containing depleted uranium, which is an exceptionally hard metal and therefore suited for penetrating tanks.

Both NATO and the Pentagon have brought forward scientists and military experts with evidence that the munitions' low-level radiation is not harmful and that natural uranium is always present in the environment and in the body. But European anxiety rose again this month when laboratories in Switzerland and Finland announced that they had found small amounts of uranium 236 in shrapnel from American weapons found in Kosovo.

Pierre Roussel, a physicist at the National Center for Scientific Research in Paris, noted that the ratio of uranium 236 found so far was tiny, but added, "The problem is that this isotope can only be produced in a reactor, where it is accompanied by far more radioactive elements."

A Pentagon spokesman who left office with the Clinton administration said on Jan. 18 that it was known that because of possible production flaws, some American depleted uranium contained traces of plutonium, neptunium and americium. He suggested, however, that the amounts were so minute that they posed no danger.

Experts in nuclear medicine in Britain, France and the United States said in interviews that they questioned the idea that there was no danger because experiments on animals had shown that uranium particles could get into the bloodstream, organs and bone, where they could deliver low-level radiation. They say the mechanism of radiation damage is still poorly understood and the debate about what might be a harmful dose is still open.

"Depleted uranium, mostly U238, has been found stored in bone, and if it gets into bone, it can reach the bone marrow," said Jean-François Lacronique, the director of the National Radiation Protection Agency in France, which oversees safety for workers in France's nuclear power plants. "Depending on the dose and the length of exposure, any kind of radiation can cause leukemia."

Dr. Durakovic said he believed that there was a fundamental difference between the effects of depleted uranium outside and inside the body.

Outside, he said, it does no harm. But when depleted uranium is blown up it burns at high temperatures, he said, and "it changes into uranium oxides — tiny, hard particles that are microns in size."

"They can stay airborne as aerosols, be blown around by the wind and fall down as dust. Because they are the size of microns, people can inhale them."

Once inhaled, Dr. Durakovic added, uranium can get into the bloodstream, be carried to bone, lymph nodes, lungs or kidneys, lodge there, and cause damage when it emits low- level radiation over a long period. Critics of Dr. Durakovic's work said his findings were inconclusive and did not provide a definitive link between uranium and the illnesses of veterans, but Dr. Durakovic says he does not make that claim but instead that his tests reveal the "distinct" presence of radioactive uranium particles in his patients.

Democrats Move Toward Bush On Taxes, But ...

Roll Call

With Congressional Democrats shifting toward larger, across-the-board tax cuts, it ought to be easy for President Bush to strike a deal. But of course it won't be.

The Democrats haven't officially settled on their tax stance, but leaders are talking about cuts as large as $900 billion over 10 years and have virtually decided to jettison the word "targeted," convinced it's a political loser.

The Democrats' shift is closing the differences between their plan and Bush's $1.6 trillion across-the-board proposal, and Federal Reserve Chairman Alan Greenspan has given his blessing to a tax cut.

There's plenty left for Democrats and Republicans to fight about, though - and both sides seem to be itching for a battle before they settle down to serious negotiations.

For example, they differ not just on the size of cuts but especially on how they should be distributed. Democrats are leaning toward a proposal that would give all families a
yearly $600 tax cut, while Bush also wants to give tens of thousands of dollars back to upper-income taxpayers.

Besides being far apart on substance, both sides want a test of strength to show who's boss. If Bush wants to change Washington's partisan atmosphere, this is the place to start.

So far, Bush has won one argument. Democratic leaders are abandoning former Vice President Al Gore's campaign position - and theirs - that tax cuts ought to be "targeted" to the middle class and achieve specific policy goals. "People hear the word 'targeted' and think everyone will get a cut but them," observed one Democratic leadership aide. "They think that, as a party, we oppose tax cuts."

The point was driven home in a poll unveiled last Monday at a House Democratic leadership retreat which showed that by margins of 12 to 22 points, voters prefer across-the-board cuts to targeted ones.

The poll of 1,200 voters was conducted jointly by two Democratic firms, Garin-Hart-Yang and the Mellman Group, represented at the retreat by pollsters Geoff Garin, Fred Yang and Mark Mellman.

Asked whether Democrats should "stand up to" or "go along with" a Bush tax cut of $1.9 trillion (Democrats add interest payments to Bush's cuts), voters were split, 36 to 36 percent. By 57 to 17 percent, they said Democrats should "stand up to" cuts that go 60 percent to the rich.

Respondents said they trust Democrats on taxes slightly more than Republicans, 41 to 39 percent, and favor Democratic priorities, such as education, Social Security and prescription drugs, over tax cuts by 10 to 20 percent.

However, when asked to choose between "reducing everyone's taxes" and "targeted cuts for college and health care," they voted for across-the-board cuts by 52 to 40 percent. And when asked to choose between "reduced rates for all" and rate reductions for the first $35,000 of income, across-the-board cuts were favored by 57 to 35 percent.

Democrats haven't entirely dropped the idea of targeted cuts, however. Senate Minority Leader Thomas Daschle (D-S.D.) introduced a package of targeted cuts as the new Congress convened.

They also are likely to reintroduce marriage penalty and estate tax relief legislation that's smaller than Republican proposals, as they did in the last Congress.

But, subject to agreement when House and Senate caucuses approve the strategy, Democrats are likely to make their lead proposal acceleration of Bush's plan to lower the current bottom rate of 15 percent to 10 percent for the first $12,000 of income.

During the election campaign, Bush favored phasing in the cut over six years, which would give all families just a $120 cut this year. Democrats are inclined to make it fully effective this year, giving all families $600 at a cost of $40 billion a year.

There also is discussion among Democrats about giving taxpayers an income-tax credit for the Social Security taxes they pay and helping taxpayers whose incomes rise above the level that makes them eligible for the earned income tax credit.

Besides moving to across-the-board cuts, Democrats have nearly doubled the price tag on the cuts they will consider -from $500 billion during the campaign to close to $900 billion, if the Congressional Budget Office comes in next week with a non-Social Security, non-Medicare budget surplus of $2.7 trillion.

Democrats want a third of the surplus to go to tax cuts, a third to new spending programs, and a third to pay down the federal debt.

Democrats charge that Bush wants to spend 85 percent of the surplus on tax cuts and, after spending increases, would return the nation to the deficit era. Bush aides say that's nonsense.

Both sides claim they've been vindicated by Greenspan -Republicans, from his endorsement of marginal rate cuts; and Democrats, from his cautions to protect the surplus. And so the fight goes on.

My guess is there'll be an agreement somewhere near Senate Finance Chairman Chuck Grassley's (R-Iowa) estimate of $1 trillion in cuts and a top rate lower than its present 39.6 percent but higher than Bush's proposed 33 percent. However, it will be awhile coming.

Montana Republicans Seek to Ease Environmental Laws

New York Times

By MICHAEL JANOFSKY

HELENA, Mont. - Citing steadily declining jobs in traditional industries like mining, logging and energy development, Montana is preparing to change its environmental regulations to make them more favorable to business.

The current efforts are the most ambitious by any state to speed the process of obtaining construction and operating permits, and they have set off an old-fashioned fight between environmentalists and business interests. But both sides agree on one thing: the state's actions have taken on added force and importance in light of President Bush's promise to review the Clinton administration's environmental policies and the willingness of the nominee for interior secretary, Gale A. Norton, to let the states assume more power to regulate themselves.

"The concept is not new, but I haven't seen other states do something as comprehensively as Montana," said Paula Carrell, state program director for the Sierra Club.

The changes proposed for Montana, in at least eight bills being drafted, have the support of the new governor, Judy Martz, a Republican, and Republican leaders of the Legislature, who say the Republican majority in both chambers almost assures passage of the bills.

In particular, two state laws are under review, the Montana Environmental Policy Act and the Montana Major Facility Siting Act, which regulates the construction and operation of power plants. Both laws are nearly 30 years old.

"The laws are so vague," said Don Allen, executive director of the Western Environmental Trade Association, a coalition of industry groups. The Montana Environmental Policy Act "and other things are used so widely that they play a role in keeping our economy from what it needs to be."

Governor Martz agrees. "The process needs to be changed," she said, adding that only the regulations for gaining permits would be changed, not laws that protect the air and water.

For example, some permits could be granted after 90 days of review rather than a year. Another change under consideration before the Legislature would allow the state to issue a permit after the 90-day deadline even if all environmental reviews had not been completed.

Environmentalists who have fought long and expensive battles over mine cleanups and timber harvesting are not optimistic that they can stop the initiatives. "State agencies will be forced to act prior to having all the information they need to make an adequate decision," said Anne Hedges, program director for the Montana Environmental Information Center, a watchdog group.

Supporters of the legislation contend that the state's current environmental regulations make it too expensive for companies to operate profitably, driving away high-paying jobs and discouraging out-of-state businesses from expanding into Montana. They also contend that the regulations have helped drive up Montana's electricity costs by discouraging the construction of power plants. Utility rates for consumers have doubled in the last year.

The environmental groups are challenging the new measures as unnecessary, saying they could endanger not only the quality of the state's air and water but also its economy. They say that Montana ranks eighth in the country in per capita job creation, and that the state's 5 percent unemployment rate, though slightly higher than the national average, is relatively low and has been falling.

Yet the Republican lawmakers want Montanans to believe that the state is in dire trouble, said Thomas Power, chairman of the economics department at the University of Montana. "Their whole premise is wrong," Mr. Power said. "All they know is they are losing jobs in mining, milling and smelting; therefore they must be hurting. But the industrial base of the country is evaporating. These people are staring into the rearview mirror, lost in fantasies tied to the past."

Tourism and recreation, the environmentalists note, are fueling job growth; service industry jobs jumped to 119,571 in 1999 from 82,684 in 1990. At the same time, the number of jobs in farming, forestry and mining fell. Mining jobs alone dropped to 7,081 in 1999 from 8,977 in 1990. While state income from natural resource industries has fallen or remained even, income from the recreation and health industries has risen substantially.

The environmentalists say economic declines have less to do with environmental regulations than with the state's tax policy, the quality of schools, Montana's 1997 deregulation of electrical power - and the enormous financial burden of cleaning up defunct mining sites.

"To get out of the bottom of the barrel, they want to strip the protections away," said John Wilson, conservation director of Montana Trout Unlimited. "But that just puts out a welcome mat, particularly to the natural resource industry of coal, oil and gas."

"It sends the same message to George Bush, as well," he added.

That is fine with the Republicans, who note that Montana has consistently ranked low in wages. In 1988, Montana ranked 44th in per capita income; by 1998, the state had fallen to 47th, with an average per capita personal income of $21,229.

"We're always at the bottom of the barrel," said State Senator Lorents Grosfield of Big Timber, Mont.

Democratic lawmakers say they share the concerns of the environmental groups, while bowing to what appears to be the inevitable.

"We may need to look at the process to see if it needs to be modernized," Kim Gillan of Billings, the House minority leader, said, "but only as long as it keeps to the substance of the state environmental laws." Nonetheless, she added, the Republican majorities in both chambers might make it too difficult for Democrats to contain their efforts. Republicans control the House, 58 to 42, and the Senate, 31 to 19.

Environmentalists fear that other states will follow Montana's lead, emboldened by a new administration in Washington that is more sympathetic to natural resource industries than the Clinton administration was.

So far, though, there is no sign of that. Officials in Idaho and Wyoming - states that have traditionally relied on mining and logging - have said that they are not replicating Montana's model.

Ms. Carrell of the Sierra Club also said she knew of no other state as active as Montana in trying to loosen environmental regulations. Still, she added, "it could be that Montana just stuck its head out of the hole first."

"We're expecting a lot more of this stuff to surface," she said, "especially now with new sympathies in Washington."

On the Editorial Pages on Monday, January 29, 2001

Politicians for Rent

Washington Post

MONEY ALWAYS HAS twined itself through politics, but in Washington there used to be some sense of restraint about it. The speaker of the House, for instance, might have thought twice before openly selling access to himself to the highest bidders. Today, shamelessness has taken the place of restraint, as a report by The Post's Juliet Eilperin yesterday made clear. Want to attend an inaugural reception with Speaker J. Dennis Hastert? You can, for $10,000. Maybe you would rather watch the Super Bowl with him in Tampa? That will be $10,000 also -- though for that price you can enjoy the company of Northern Virginia Rep. Tom Davis too.

It used to be that members of Congress might do their jobs for a while before revving up their fundraising machines for the next race. Now fundraising is the main job, and the politicians start, as the Eilperin article also detailed, long before they begin legislating. Mark Steven Kirk, a newly elected Illinois congressman, held a $10,000 fundraiser less than six hours after his swearing in. Oklahoma Rep. J. C. Watts turned the inaugural parade itself into a fundraiser, socking away $200,000 from donor-supplicants at a restaurant on Pennsylvania Avenue.

Gone from any of this is the notion that people give money to candidates or parties for reasons of governing philosophy or positions on issues. The big-money folks give to those who have won or might win. Those in power threaten the contributors in plain language: Give to us or you'll be squeezed out of the game; give too much to the other guys and you'll be sorry. It's the kind of sordid operation that a Mafia don would understand, and both parties play with equal vigor. "We're a hot ticket these days," one Democratic fundraiser boasted to The Post. "The fifty-fifty split [in the Senate] means something. People want to play, for sure."

Plenty of members of Congress dislike what they have become, which is one factor that gives reform this year at least a ghost of a chance. They'd rather be legislating than extorting. But as Arizona Sen. John McCain points out, the current system favors incumbents, and for most members a desire to win ranks ahead of a distaste for the process. That, combined with a president who so far seems opposed to real reform, makes Sen. McCain's battle for change an uphill one. But the sickening spectacle of a speaker-for-rent as a commonplace of Washington politics makes reform as urgent as it is difficult.

Some Power Trip

By Gregory Palast
Washington Post

As the lights go out over California, state politicians are in a Henny Penny panic that the two big local power companies, Southern California Edison (SCE) and Pacific Gas & Electric Co. (PG&E), will collapse into bankruptcy. Not me: I can't think of anything that would more joyously combine historical justice and good public policy.

Why justice? Because SCE and PG&E executives, eager to reap the profits of deregulation, were in the forefront of the army of industry lobbyists fighting to establish the system that got California into this mess.

And why good public policy? Because letting the utilities go bankrupt could be the first step toward returning California to the system of government price regulation that has given America some of the cheapest and most reliable electricity in the world. Regulation may be politically unfashionable, but it works.

Over the past three decades, as a consultant to 19 state governments, I've seen electricity price regulation from the inside. The U.S. process is unique in the world. In open hearings, consumer groups, competitors or anyone off the street can pore over a utility company's account books, cross-examine the company's executives and question the regulators' staff. Based on that evidence, public utility commissions set a price per kilowatt hour based on verified costs plus a small, tightly controlled profit for shareholders. It's a litigious, messy business, prone to political manipulation, just as its critics say. But that's true of any democratic process.

The so-called deregulation movement seeks to replace this open, participatory, American system -- one that's been astonishingly effective for nearly a century -- with something conceived and designed in Margaret Thatcher's England and launched there in 1990. (Sorry, California, this is one fad you didn't think of first.) A number of countries, including Brazil and Chile, mimicked the British system. And California swallowed it whole.

This is how the British system works. First, electricity businesses are split into "generators" and "distributors" -- the first owning the power plants, the second the wires transmitting the power. (During this part of the deregulation process, SCE and PG&E gleefully sold off many of their generating plants -- built with ratepayers' money -- and pocketed the proceeds.) Then something called a "power pool" is established. Every day, generators bid the price at which they will supply electricity to the pool at a certain hour of the next day, say 2 cents per kilowatt hour at 4 p.m.

In Britain, it didn't take long for the handful of power sellers and traders to learn how to "game" the pool, essentially turning the daily auction into a fixed casino. Last year, Britain's Office of Electricity and Gas Markets concluded that collusion and manipulation of the pool had become standard business practice.

So it's not surprising that in Britain -- as well as in every one of its imitators -- the public has suffered higher prices, decayed service and blackouts. In the 1990s, as America's electricity prices fell with the price of oil, Britain's stayed stratospheric, on average 70 percent higher than in the States. (Don't confuse this with the taxes that keep gasoline prices high in Britain; profits account for the higher electricity prices. U.K. utilities commonly earn five times the return on capital permitted to regulated U.S. utilities.)

And this is the system that the free-market fanatics foisted on California. Notably, three of the four biggest power generators controlling the California market -- AES, Southern and Dynergy -- and the biggest U.S. power trader, Enron, are also big players in Britain.

Manipulated or not, on a hot summer's day, when a pool needs all the juice it can find, the handful of sellers can name their price. And in California, they do. For example, this past June 29, sellers demanded 52 cents per kilowatt hour; on June 29, 1999, they had accepted 5 cents, a price better reflecting their true costs.

I first came to Britain in 1996, to help the incoming Labor government try to fix the nation's new -- but already broken -- electricity market. It didn't work. Year after year, the fixes failed, as they will fail in California and other states that think they can design a deregulated system. There is no fix: Free markets in electricity go berserk because they aren't really markets, aren't free and can't be. Electricity isn't like a dozen bagels; it can't be frozen, stored or trucked where needed. And while you can skip your daily bagel, homes and industry will not do without their daily electricity.

As a result, deregulation is never really deregulation but an unhappy mish-mash of rules belatedly chasing runaway prices generated by each week's new trading game. To salvage their imploding market, the California power pool's economists busily craft one wacky fix after another -- "Intra-zonal Congestion Management," "Price Volatility Limit Mechanisms" and more, which tumble out of their bureaucracies like circus clowns from a Volkswagen. A delicious irony is that "deregulation" has produced an explosion of shifting regulations and new bureaucracies dwarfing California's old regulatory system.

Market fundamentalists say the solution to half-baked deregulation is full deregulation, with no rules at all. That's frightening. As former World Bank economist Joe Stiglitz said to me the other day, these theorists are like medieval bloodletters. If a dose of their free-market medicine doesn't cure the patient, they call for applying more leeches.

No one in America is safe from the deregulators. One would think that, after the California debacle, states would run from deregulation. But the same self-serving lobby that blinded California to Britain's fiasco has blinkered Texas, New York and others to California's failure.

Residents of the District of Columbia, where a deregulation statute took effect this month, can sleep easy with night lights burning -- but only for the next four years. That's when the price caps bargained for by the District's people's counsel, Elizabeth Noel, will be lifted, and consumers will be at the mercy of the PJM Interconnection pool (which serves parts of Pennsylvania, New Jersey and Maryland). Even PJM, considered the nation's most stable market, is subject to the same manipulations as San Diego. On July 28, 1999, completely legal "stacking" bids by the big power companies bounced the price paid by the PJM pool to $935 per megawatt hour -- about 30 times the sellers' costs.

You didn't feel it in your bill then. But when the cap goes, look out. Even Noel, proud of the protections she wrote into the statute, echoes other consumer advocates across the nation: "If I had a Harry Potter wand, I'd put the [deregulation] genie back in the bottle," she told me last week.

If the problem is deregulation, the cure is re-regulation. Those who profit from deregulation have fostered the presumption that the process is irreversible. But re-regulate we must and can.

In California, the first step would be to guide SCE and PG&E into Chapter 11 bankruptcy. The state could then purchase their power lines and other assets. Shed no tears for these two utilities. Today, they are sinking under a $12 billion debt to power sellers. But in the first four years after deregulation, until the market turned on them (as markets do), the two operators stuffed their accounts with $20 billion in windfall revenues.

I've seen this return to government control work. On New York's Long Island, a local electric company arrogantly spent billions on a faulty nuclear plant, driving itself and its community toward bankruptcy. In 1980, I drafted a plan for the state to buy the company. The resulting takeover by an independent government-owned power authority, completed in 1991, slashed prices by a good 20 percent and improved service.

Once the distribution grid is in public hands, California must then return the power plants within its borders to the old profit-limited, democratically organized method of regulating price. But this rescue plan will fail unless the federal government gives up on the deregulation fantasy as well. To nudge other states into following California's scheme, the Federal Energy Regulatory Commission lifted the price controls on most interstate sales into power pools. Those controls need to be permanently restored.

Pulling out of the deregulation morass is not a technical problem but a political one. An economic ideology -- not to mention several trillion dollars of infrastructure -- are on the line. California's electricity grid may be the free marketeers' Vietnam. It is the place where the conviction that markets are superior to public control -- always, everywhere and forever -- loses its way in the dark. The only solution to the deregulation debacle is swift, honorable and complete withdrawal.